



# Community Developments

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Comptroller of the Currency  
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## **Helping Rural Customers Reach HomeAtLast**

*by Mary Morstadt, Specialty Lending Manager, National City Mortgage*

National City Mortgage offers a broad range of specialty mortgage loan products — collectively known as *HomeAtLast* — because one size definitely does *not* fit all affordable housing challenges. Borrowers, whether urban or rural, have widely varying needs in terms of cash available for down payment and closing costs, credit background, and property condition.

National City Corporation, headquartered in Cleveland, is one of the nation's largest financial holding companies and is the parent company of National City Mortgage. With banks in Ohio, Illinois, Indiana, Kentucky, Michigan and Pennsylvania, and mortgage lending offices in 37 states, National City serves many rural markets. Increasing homeownership in our rural communities helps strengthen the financial health of these markets – as well as our bottom line. In addition to fulfilling our Community Reinvestment Act (CRA) responsibilities, we've generated profitable loan activity while increasing homeownership, encouraging new development, and improving the condition of existing housing stock. Increasing homeownership in our rural markets helps strengthen the financial health of these communities – as well as our bottom line.

We see three keys to success in serving rural America's affordable housing needs: products, partnerships, and promotional outreach.

### ***Products***

National City products exclusive to rural areas include Section 502 Rural Housing Guaranteed Loans and Leveraged Loans made in conjunction with USDA's Rural Housing Direct Loans. Guaranteed Loans enable us to serve moderate- and middle-income borrowers, as well as some low-income borrowers. Leveraged Loans with Rural Housing Direct Loans serve those with insufficient income for

the guaranteed-loan program. In many of our markets, state bond programs allow us to offer rural housing loans at below-market interest rates.

Recently, for example, we helped a 23-year-old single mother to purchase an \$80,000 home in rural Indiana. Her \$24,000 income (consisting of salary and child support) qualified her for a Rural Housing Direct Loan of \$60,505. The below-market-rate Direct Loan was made in conjunction with a market-rate National City first mortgage loan of \$17,428 and a \$2,500 forgivable second mortgage loan from Community Connections, a division of Pathfinder Services, Inc., a not-for-profit community development organization providing home buying assistance in four Indiana counties. The Community Connections loan is forgiven at 20 percent per year over five years, as long as the borrower continues to occupy the property.

We had discussed housing loans with Pathfinder Services for several years but hadn't been able to do much business together until we began to offer the Rural Housing Leveraged Loan program in 2002. Pathfinder provided much of the impetus for us to do that. We're currently processing nearly two dozen referrals from Pathfinder, and anticipate 60 to 80 referrals a year. This is an excellent example of a profitable partnership with a strong non-profit, made possible by adding the Leveraged Loan Program to our product menu.

For those purchasing or refinancing a property requiring rehabilitation, we offer the FHA 203(k) loan, as well as conventional alternatives. The 203(k) loan combines underwriting flexibilities with the convenience of being able to buy and rehab with one loan. Thus a borrower can buy a "fixer-upper" home and borrow the rehab monies at the time of closing. The rehab funds go into an escrow account that is drawn down as the renovation work is completed.

### ***Partnerships***

We partner with community development organizations to help expand our reach into low- and moderate-income communities. There are many benefits. The funds available to eligible non-profits can provide much-needed down-payment assistance, appraisal gap funding, and other equity positioning. The counseling they provide is important to ensure financial literacy and proper preparation for homeownership. With established networks and close knowledge of their clients, they are key partners in extending homeownership opportunities.

We also use National City's community development corporation to extend our commitment to partnerships. For over 20 years, the National City Community Development Corporation (NCCDC) has been making residential and commercial loans and equity investments in lower-income neighborhoods. NCCDC acts as a catalyst between community organizations, financial institutions, developers, state and federal government institutions concerned with community planning and development.

In New Castle, Pennsylvania, for example, NCCDC joined with six banks to form a limited partnership with the Lawrence County Family Center (LCFC) — with the support of local government — to fund construction of 16 new homes and buy/rehab another 25 homes, all to be sold to families at 60 percent or less of the area median income.

New Castle, county seat of largely rural Lawrence County, was once a bustling industrial and railroad center with a population of 50,000. But that was long ago. Today, with a population of about 20,000, New Castle needs help. That's what our partnership is all about. Thus far we've built and sold eight homes in a neighborhood where so many houses had been razed over the years that half of the original plots had become empty lots.

Local government allocated \$60,000 to the LCFC to purchase lots; applied to the state for HUD HOME funds, to be given to lower-income homebuyers as equity (with these funds essentially bringing the purchase price down to the appraised value); and provided for three years of tax abatement, as well as paving streets and improving drainage. National City Bank obtained FHLB Affordable Housing Program funds to buy down another portion of the sales price, and used FHLB Home Buyer Equity Funds to cover 75 percent of the buyers' closing costs.

The LCFC was the developer, seller and counseling agent in this process. National City provided the first mortgage loans to the eight homes built in phase one. The last home was sold for \$75,900 to a disabled borrower. Financing included a \$46,000 first mortgage loan from National City and secondary liens of \$6,000 from the FHLB, \$17,260 from New Castle City HOME funds, and \$6,640 from the Lawrence County Family Center. All secondary liens are forgivable with residency maintained over a five- or ten-year period.

This brief recap can only hint at the patience and perseverance that are needed to make this kind of affordable housing partnership work. It was unprecedented for six banks to embrace NCCDC's plan. Now, with the first phase completed, we're up against a new challenge. City government is very much a partner but, like so many state and local governments, faces severe budget problems. The HOME funds provided by the city are critical to the project's completion. With any luck, we'll find a way to keep this valuable project on track.

### ***Promotional outreach***

Product availability is only part of the story. It's just as important to communicate product benefits to target audiences, and to address concerns about the mortgage process. We use a range of communication strategies, from face-to-face to online. For seminars we've created a "Homebuyer Seminar in a Box" toolkit that contains several modules -- including visual aids -- that can be used individually or in

combination. Topics range from budgeting and preparing for homeownership to specific product and process details.

We also focus on communicating with referral sources, including non-profits and faith-based groups as well as government agencies and real estate agents. We produce an annual Specialty Lending “RoadShow,” designed to update referral sources on homeownership products, services, and strategies. Topics at this year’s show include the Renovation Loan, a saleable first mortgage loan for purchase and rehabilitation, and Energy Efficient Mortgages, which allow costs of certain energy improvements to be added to the mortgage loan amount.

One of the attendees at this year’s “RoadShow” was the director of the Redevelopment Authority of Uniontown, Pennsylvania, where the average income is below 80 percent of the area median. Thanks to the “RoadShow” we’ve formed yet another new partnership, working with the Redevelopment Authority to finance housing rehabs, we will pre-approve potential borrowers for first mortgage rehab products.

Anyone who works in the field of affordable housing must sometimes wish for a magic wand to make it happen more quickly and simply. That goes double for rural areas, where urban problems are compounded by factors such as isolation and scarce local financial resources. But until that wand appears, we’ve found that combining products, partnerships, and promotion is a good formula. It’s helping more rural Americans to find their way “home at last.”

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